



深圳宝德科技集團股份有限公司  
(前稱深圳市宝德科技股份有限公司)

**POWERLEADER SCIENCE & TECHNOLOGY GROUP LIMITED\***

**(formerly known as Powerleader Science & Technology Company Limited\*)**

*(a foreign joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock code: 8236)**

**INTERIM REPORT**

**FOR THE SIX MONTHS ENDED 30 JUNE 2008**

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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*This report, for which the directors (the “Directors”) of Powerleader Science & Technology Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with The Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

\* For identification purpose only

## HIGHLIGHTS

- For the six months ended 30 June 2008 (the “Six Months Period”), the Group recorded an unaudited turnover of approximately RMB507,170,000, representing an increase of approximately 17.5% as compared to that of the corresponding period in 2007.
- Unaudited profit attributable to equity holders for the Six Months Period amounted to approximately RMB37,003,000 representing a significant increase of approximately 135.8% as compared to the corresponding period in 2007.
- 深圳市中青宝網網絡科技股份有限公司 (formerly known as 深圳市宝德網絡技術有限公司) (“Powerleader Network”), an associated company of the Group, has successfully obtained cash capital of RMB83,200,000 from independent third parties, resulting in a profit of RMB13,861,000 from deemed disposal of equity interest in Powerleader Network.

## INTERIM RESULTS

The board of Directors (the “Board”) is pleased to announce that the unaudited results of the Company for the three months and six months ended 30 June 2008 together with comparative unaudited figures for the corresponding periods in 2007 are as follows:

### Condensed consolidated income statement

	Note	Three months ended		Six months ended	
		30 June 2008	2007	30 June 2008	2007
		RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
<b>Continuing operations</b>					
Turnover	3	<b>218,526</b>	235,737	<b>507,170</b>	431,698
Cost of sales		<b>(197,780)</b>	(214,242)	<b>(465,860)</b>	(390,062)
Gross profit		<b>20,746</b>	21,495	<b>41,310</b>	41,636
Other operating income	4	<b>6,880</b>	1,400	<b>7,861</b>	2,720
Selling expenses		<b>(5,386)</b>	(5,857)	<b>(10,041)</b>	(13,029)
Administrative and other expenses		<b>(2,453)</b>	(4,575)	<b>(11,985)</b>	(9,365)
Operating profit	5	<b>19,787</b>	12,463	<b>27,145</b>	21,962
Finance costs		<b>(3,396)</b>	(1,748)	<b>(4,254)</b>	(2,700)
Gain on deemed disposal of interest in an associate	6	—	—	<b>13,861</b>	—
Share of profit from an associate		<b>1,879</b>	—	<b>4,031</b>	—
Profit before taxation		<b>18,270</b>	10,715	<b>40,783</b>	19,262
Taxation	7	<b>(1,684)</b>	(1,408)	<b>(2,338)</b>	(2,241)

	<i>Note</i>	Three months ended		Six months ended	
		30 June		30 June	
		2008	2007	2008	2007
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Profit for the period from continuing operations		<b>16,586</b>	9,307	<b>38,445</b>	17,021
<b>Discontinued operations</b>					
Profit for the period from discontinued operations		—	1,160	—	196
		<b>16,586</b>	10,467	<b>38,445</b>	17,217
Attributable to:					
Equity holder of the Company		<b>15,510</b>	9,455	<b>37,003</b>	15,693
Minority interest		<b>1,076</b>	1,012	<b>1,442</b>	1,524
Profit for the period		<b>16,586</b>	10,467	<b>38,445</b>	17,217
Dividend	8	—	—	—	—
Earnings per share	9				
From continuing and discontinued operations — Basic		<b>RMB0.69 cent</b>	RMB0.42 cent	<b>RMB1.6 cents</b>	RMB0.7 cent
From continuing operations — Basic		<b>RMB0.69 cent</b>	RMB0.37 cent	<b>RMB1.6 cents</b>	RMB0.69 cent
From discontinued operations — Basic		—	RMB0.05 cent	—	RMB0.01 cent

## Condensed consolidated balance sheet

	<i>Note</i>	As at 30 June 2008 <i>RMB'000</i> <i>(Unaudited)</i>	31 December 2007 <i>RMB'000</i> <i>(Audited)</i>
<b>Non-current assets</b>			
Property, plant and equipment	10	92,014	83,167
Deferred development costs	11	22,018	23,807
Prepaid lease payments		31,108	1,626
Investment in an associate	12	26,677	8,785
Finance lease receivables		—	315
		<u>171,817</u>	<u>117,700</u>
<b>Current assets</b>			
Inventories	13	102,989	69,159
Trade and bills receivables	14	201,530	240,248
Other receivables, deposits and prepayments		123,120	56,520
Prepaid lease payments		36	36
Finance lease receivables		289	1,165
Bank balances and cash		90,641	168,147
		<u>518,605</u>	<u>535,275</u>
<b>Current liabilities</b>			
Trade and bills payables	15	92,241	120,779
Other payables and accrued charges		63,842	34,562
Dividend payable		7,517	7,517
Receipts in advance		12,930	8,570
Taxation payable		8,846	6,420
Bank and other borrowings — due within one year	16	75,847	85,529
		<u>261,223</u>	<u>263,377</u>
<b>Net current assets</b>		<u>257,382</u>	<u>271,898</u>
<b>Total assets less current liabilities</b>		<u>429,199</u>	<u>389,598</u>

	<i>Note</i>	As at <b>30 June</b> <b>2008</b> <i>RMB'000</i> <i>(Unaudited)</i>	31 December 2007 <i>RMB'000</i> <i>(Audited)</i>
<b>Capital and reserves:</b>			
Share capital	17	225,750	225,750
Reserves		<u>122,516</u>	<u>85,513</u>
		<u>348,266</u>	<u>311,263</u>
<b>Minority Interests</b>		<u>11,619</u>	<u>11,317</u>
<b>Non-current liabilities</b>			
Bank and other borrowings			
— due after one year	16	68,927	66,205
Deferred taxation	19	<u>387</u>	<u>813</u>
		<u>69,314</u>	<u>67,018</u>
		<u>429,199</u>	<u>389,598</u>

**Condensed statement of changes in equity***For the six months ended 30 June 2008*

	<b>Attributable to equity holders of the Company RMB'000 (Unaudited)</b>	<b>Minority Interest RMB'000 (Unaudited)</b>	<b>Total equity RMB'000 (Unaudited)</b>
<b>At 1 January 2007</b>	258,313	13,687	272,000
Profit for the period	15,693	1,524	17,217
Dividends paid to minority shareholders of a subsidiary	—	(1,097)	(1,097)
	<u>274,006</u>	<u>14,114</u>	<u>288,120</u>
<b>At 30 June 2007</b>			
<b>At 1 January 2008</b>	311,263	11,317	322,580
Profit for the period	37,003	1,442	38,445
Dividends paid to minority shareholders of a subsidiary	—	(1,140)	(1,140)
	<u>348,266</u>	<u>11,619</u>	<u>359,885</u>
<b>30 June 2008</b>			

**Condensed cash flow statement***For the six months ended 30 June 2008*

	<b>For the six months ended 30 June 2008 RMB'000 (Unaudited)</b>	<b>For the six months ended 30 June 2007 RMB'000 (Unaudited)</b>
Net cash used in operating activities	(47,699)	(35,623)
Tax paid	(340)	(628)
Net cash used in investing activities	(14,393)	(4,272)
Net cash (used in) generated from financing activities	(15,074)	18,462
	<u>(77,506)</u>	<u>(22,061)</u>
<b>Decrease in cash and cash equivalents</b>		
<b>Cash and cash equivalents at 1 January</b>	<u>168,147</u>	<u>97,806</u>
<b>Cash and cash equivalents at 30 June</b>	<u>90,641</u>	<u>75,745</u>

Notes:

## 1. General

The Company was established in the People's Republic of China (the "PRC") on 20 August 1997, as a private-owned company and became a joint stock limited company on 31 July 2001. The Company was listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited on 12 December 2002 by way of placement.

The Group operates in the region of the PRC and Hong Kong and is principally engaged in the design, manufacture and sales of computer servers, sales and distribution of platform and accessory products and leasing of computer servers.

## 2. Summary of significant accounting policies

The unaudited condensed interim financial statements have been prepared in accordance with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of securities on GEM. The accounting policies adopted are consistent with those followed in the preparation of the Company's audited financial statements for the year ended 31 December 2007.

The financial statements have been prepared under historical cost basis except for certain financial assets and liabilities, which are measured at fair values.

## 3. Turnover

Turnover represents the amounts received and receivable for services provided and goods sold, net of returns and allowances. Turnover recognised for the six months ended 30 June 2008 together with comparative unaudited figures for the period in 2007 are as follows:

### *Business segment*

For management purposes, the Group is currently organised into three major operating divisions — computer servers, platform and accessory products and leasing of computer servers. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Computer servers	—	Design, manufacture and sales of computer servers and related products
Platform and accessory products	—	Trading of platform and accessory products
Leasing of computer servers	—	Leasing and provision of maintenance services on computer servers

An analysis of the Group's turnover and operating results by business segments is as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2008 (RMB'000) (unaudited)	2007 (RMB'000) (unaudited)	2008 (RMB'000) (unaudited)	2007 (RMB'000) (unaudited)
<b>Turnover</b>				
<i>Continuing operations</i>				
Computer servers	85,007	44,655	132,799	103,153
Platform and accessory products	133,067	188,315	372,377	323,891
Leasing of computer servers	452	2,767	1,994	4,654
	<b>218,526</b>	235,737	<b>507,170</b>	431,698
<i>Discontinued operations</i>				
On-line games	—	2,165	—	2,300
	<b>218,526</b>	237,902	<b>507,170</b>	433,998
<b>Results</b>				
<i>Continuing operations</i>				
Computer servers	11,557	6,855	16,901	13,285
Platform and accessories products	8,507	4,784	10,220	7,744
Leasing of computer servers	(277)	824	24	933
	<b>19,787</b>	12,463	<b>27,145</b>	21,962
<i>Discontinued operations</i>				
On-line games	—	1,160	—	196
	<b>19,787</b>	13,623	<b>27,145</b>	22,158
Finance costs	(3,396)	(1,748)	(4,254)	(2,700)
Gain on deemed disposal of interest in an associate	—	—	13,861	—
Share of profit from an associate	1,879	—	4,031	—
	<b>18,270</b>	11,875	<b>40,783</b>	19,458
Taxation	(1,684)	(1,408)	(2,338)	(2,241)
	<b>16,586</b>	10,467	<b>38,445</b>	17,217

The Group's operation by geographical analysis is as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2008 (RMB'000) (unaudited)	2007 (RMB'000) (unaudited)	2008 (RMB'000) (unaudited)	2007 (RMB'000) (unaudited)
<b>Geographical market:</b>				
PRC	85,459	35,730	134,793	88,009
Hong Kong	133,067	200,007	372,377	343,689
	<b>218,526</b>	235,737	<b>507,170</b>	431,698

#### 4. Other operating income

	For the three months ended 30 June		For the six months ended 30 June	
	2008 (RMB'000) (unaudited)	2007 (RMB'000) (unaudited)	2008 (RMB'000) (unaudited)	2007 (RMB'000) (unaudited)
<i>Continuing operations</i>				
Interest income from bank deposits	289	280	851	621
Revenue received from Intel Solution Centre	—	—	—	231
Exchange gain	6,504	1,094	6,504	1,503
Sundry income	87	26	506	365
	<u>6,880</u>	<u>1,400</u>	<u>7,861</u>	<u>2,720</u>
<i>Discontinued operations</i>				
Government subsidies on VAT refund to sales of software products	—	—	—	80
Total	<u>6,880</u>	<u>1,400</u>	<u>7,861</u>	<u>2,800</u>

#### 5. Operating profit

Operating profit is stated after charging the following:

	For the three months ended 30 June			For the six months ended 30 June		
	Continuing operations 2008 (RMB'000) (unaudited)	Continuing operations 2007 (RMB'000) (unaudited)	Discontinued operations 2007 (RMB'000) (unaudited)	Continuing operations 2008 (RMB'000) (unaudited)	Continuing operations 2007 (RMB'000) (unaudited)	Discontinued operations 2007 (RMB'000) (unaudited)
Depreciation	1,263	566	207	2,714	1,502	414
Deduct: capitalisation from research and development activities	(63)	(86)	—	(125)	(172)	—
	<u>1,200</u>	<u>480</u>	<u>207</u>	<u>2,589</u>	<u>1,330</u>	<u>414</u>
Staff costs	4,115	3,706	282	8,447	8,112	639
Deduct: capitalisation from research and development activities	(489)	(447)	—	(1,049)	(951)	—
	<u>3,626</u>	<u>3,259</u>	<u>282</u>	<u>7,398</u>	<u>7,161</u>	<u>639</u>
Operating lease charges in respect of rented premises	323	754	131	1,028	1,258	276
Deduct: capitalisation from research and development activities	—	(159)	—	(57)	(198)	—
	<u>323</u>	<u>595</u>	<u>131</u>	<u>971</u>	<u>1,060</u>	<u>276</u>
Amortization of deferred development costs	972	1,813	—	3,752	2,970	219

## 6. Discontinued operations

On 24 September 2007, the Company entered into an agreement to dispose 69% equity interest in a former subsidiary, Powerleader Network, which carried out all of the Group's on-line games operations (the "Disposal"). The Board of Directors consider that the Disposal realigns the Group's business focus and resources in other businesses and is in line with the Group's business strategy. The Disposal was completed on 7 December 2007. Following the Disposal, the Company's equity interest in Powerleader Network decreased to 30% and it therefore became an associate.

In February 2008, Powerleader Network has successfully obtained capital fundings of RMB83.2 million from independent third parties for further development of its on-line games business. These capital fundings have reduced the Group's equity interest in Powerleader Network from 30% to 20.4% (the "Deemed Disposal"), resulting in a profit of RMB13,861,000 arising from the Deemed Disposal.

The on-line games operations made a profit of RMB196,000 for the six months ended 30 June 2007.

## 7. Taxation

	Continuing operations			
	For the three months		For the six months	
	ended 30 June		ended 30 June	
	2008	2007	2008	2007
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
The charge comprise:				
PRC Income Tax	1,244	751	2,048	1,243
Hong Kong Profits Tax	448	788	716	1,292
	<u>1,692</u>	<u>1,539</u>	<u>2,764</u>	<u>2,535</u>
Deferred tax	(8)	(131)	(426)	(294)
	<u>1,684</u>	<u>1,408</u>	<u>2,338</u>	<u>2,241</u>

	For the six months ended 30 June 2008 RMB'000 (Unaudited)		For the six months ended 30 June 2007 RMB'000 (Unaudited)	
		%		%
Profit before taxation				
Continuing operations	40,783		19,262	
Discontinued operations	—		196	
	<u>40,783</u>		<u>19,458</u>	
Tax at the income tax rate of 18% (2007: 15%) (Note)	7,341	18.0	2,919	15.0
Tax effect of tax losses not recognised	4	0.01	723	3.7
Tax effect of income not taxable for tax purpose	(3,942)	(9.7)	—	—
Tax effect of expenses not deductible for tax purpose	443	1.1	—	—
Income tax on concessionary rate	(962)	(2.4)	(1,291)	(6.6)
Effect of different tax rates of subsidiaries operating in other jurisdiction	(120)	(0.3)	185	0.9
Others	(426)	(1.0)	(295)	(1.5)
Tax expense and effective tax rate for the period	<u>2,338</u>	<u>5.7</u>	<u>2,241</u>	<u>11.5</u>

*Note:* The domestic rate in the jurisdiction where a significant portion of the Group's operations is based is used.

The Company, being an enterprise established in Shenzhen Special Economic Zone in the PRC, is subject to an income tax rate of 18%. Pursuant to an approval document Shen Guo Shui Fu Jian Mian [2005] No. 237 dated 22 September 2005 issued by the State Tax Bureau of Futian District, Shenzhen, a subsidiary of the Company was qualified as a production enterprise and is entitled to income tax exemption for the year 2006 and 2007 and a 50% reduction in income tax for the years from 2007 to 2009.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC for unified tax rate arrangements among different types of the PRC entities which results in a reduction of income tax rate from 33% to 25% with effect from 1 January 2008. The State Council of the PRC passed an implementation guidance note ("Implementation Guidance") on 26 December 2007, which sets out details of how existing preferential income tax rates will be adjusted to the standard rate of 25%. According to the Implementation Guidance, there will be a transitional period of five years for the Company and its PRC subsidiaries whereby the applicable income tax rate will be progressively increased to 18%, 20%, 22%, 24% and 25% for the years 2008, 2009, 2010, 2011 and 2012 respectively. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised and liability is settled.

Hong Kong Profits tax is calculated at 16.5% (the six months ended 30 June 2007: 17.5%) of the estimated assessable profit for the period.

## 8. Dividend

At a meeting held on 13 August 2008, the Directors did not recommend the payment of an interim dividend for the six months ended 30 June 2008.

## **9. Earnings per share**

### *From continuing and discontinued operations*

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company is based on the Group's profit attributable to equity holders of the Company of approximately RMB37,003,000 (six months ended 30 June 2007: approximately RMB15,693,000) and the weighted average number of 2,257,500,000 ordinary shares (2007: 2,257,500,000 ordinary shares) in issue during the period.

Pursuant to the resolutions passed at the Extraordinary General Meeting and the Class Meeting held on 8 October 2007, the Company issued 364,500,000 H shares and 990,000,000 domestic shares to the holders of H shares and the domestic shares respectively on the basis of 15 bonus shares for 10 shares held on 22 October 2007.

For the purpose of calculating the comparative figure for 2007, the number of shares as increased by the bonus issue is taken for the whole period, regardless of the date when the bonus issue took place.

No diluted earnings per share was presented as there were no diluting events existed during the Six Months Period and the six months ended 30 June 2007.

### *From continuing operations*

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company from continuing operations is based on the Group's profit attributable to equity holders of the Company of approximately RMB37,003,000 (six months ended 30 June 2007: approximately RMB15,499,000) and the weighted average number of 2,257,500,000 ordinary shares (2007: 2,257,500,000 ordinary shares) in issue during the period.

No diluted earnings per share was presented as there were no diluting events existed from continuing operations during the Six Months Period and the six months ended 31 March 2007.

### *From discontinued operations*

The calculation of the basic earning per share attributable to the ordinary equity holders of the Company from discontinued operations for the six months ended 30 June 2007 is based on the Group's profit attributable to equity holders of the Company of approximately RMB194,000 and the theoretical number of 2,257,500,000 ordinary shares in issue during the six months ended 30 June 2007.

No diluted earnings per share was presented as there were no diluting events existed from discontinued operations during the six months ended 30 June 2007.

## **10. Additions to property, plant and equipments**

During the period, the Group spent approximately RMB13,282,000 (2007: RMB5,482,000) on acquisition of property, plant and equipments.

## **11. Deferred development costs**

During the period, the Group spent approximately RMB1,962,000 (2006: RMB2,130,000) on deferred development cost.

## 12. Investment in an associate

	As at 30 June 2008 RMB'000 (Unaudited)	As at 31 December 2007 RMB'000 (Audited)
Cost of investment in an unlisted associate	7,166	7,166
Share of post acquisition profits and reserves	<u>19,511</u>	<u>1,619</u>
	<u><u>26,677</u></u>	<u><u>8,785</u></u>

As at 30 June 2008, the Group had interest in the following associate:

Name of entity	Place of incorporation/ operation	Class of share held	Issued and fully paid registered capital	Proportion of nominal value of registered capital held by the Company	Principal activities
深圳市中青宝網網絡 科技股份有限公司 (formerly known as 深圳市宝德網絡技 術有限公司)	PRC	Capital contribution	RMB75,000,000	20.4%	Provision of on-line game services

## 13. Inventories

	As at 30 June 2008 RMB'000 (Unaudited)	As at 31 December 2007 RMB'000 (Audited)
Raw materials	56,506	34,097
Work in progress	4,572	2,625
Finished goods	<u>41,911</u>	<u>32,437</u>
	<u><u>102,989</u></u>	<u><u>69,159</u></u>

## 14. Trade and bills receivables

The Group allows credit period ranging from two to six months to its trade customers. The aging of trade receivables is analysed as follows:

	As at 30 June 2008 RMB'000 (Unaudited)	As at 31 December 2007 RMB'000 (Audited)
Within 1 month	110,956	127,909
Over 1 month but within 3 months	54,968	56,936
Over 3 months but within 6 months	30,322	36,722
Over 6 months	<u>5,284</u>	<u>18,681</u>
	<u><u>201,530</u></u>	<u><u>240,248</u></u>

## 15. Trade and bills payables

The aging of the accounts payable is analysed as follows:

	As at 30 June 2008 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2007 <i>RMB'000</i> <i>(Audited)</i>
Within 1 month	35,731	93,022
Over 1 month but within 3 months	27,997	14,776
Over 3 months but within 6 months	27,564	10,672
Over 6 months	350	1,345
	<u>91,642</u>	<u>119,815</u>
Bills payables	599	964
	<u>92,241</u>	<u>120,779</u>

## 16. Bank and other borrowings

	As at 30 June 2008 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2007 <i>RMB'000</i> <i>(Audited)</i>
Secured loans	20,000	20,000
Unsecured loans	124,774	131,734
	<u>144,774</u>	<u>151,734</u>

The maturity profile of the above loans is as follows:

Within one year	75,847	85,529
More than one year, but not exceeding 5 years	68,927	66,205
	<u>144,774</u>	<u>151,734</u>
Less: Amounts due within one year shown under current liabilities	<u>(75,847)</u>	<u>(85,529)</u>
	<u>68,927</u>	<u>66,205</u>

Details of securities and guarantees in respect of the bank loans of the Group at 30 June 2008 were as follows:

- (a) The loan with a principal amount of approximately RMB10 million was secured by the buildings of the Group with the net carrying value of approximately RMB3.1 million and guaranteed by Powerleader Investment Holding Company Limited (“Powerleader Investment”), a company in which Mr. Li Ruije (“Mr. Li”) and Ms. Zhang Yunxia (“Ms. Zhang”), directors of the Company, have beneficial interests. The loan was also guaranteed by personal guarantees given by Mr. Li and Ms. Zhang.
- (b) The loans with an aggregate principal amount of approximately RMB10 million were secured by a bank deposit of approximately RMB1.3 million and guaranteed by personal guarantees given by Mr. Li and Ms. Zhang.

- (c) The loans with an aggregate principal amount of RMB20 million were guaranteed by Powerleader Investment and personal guarantees given by Mr. Li and Ms. Zhang.
- (d) The loans with an aggregate principal amount of RMB25 million were guaranteed by Powerleader Investment, 深圳市宝德計算機系統有限公司 (「宝德計算機」), a subsidiary of the Company and 深圳中小企業擔保中心, an independent third party of the Group. These loans were also guaranteed by personal guarantees given by Mr. Li and Ms. Zhang.
- (e) The loan with an aggregate principal amount of RMB7.7 million was guaranteed by personal guarantees given by Mr. Li and Ms. Zhang.

At 30 June 2008, the bank loans falling due within one year were subject to fixed annual interest rates ranging from 5.85% to 8.019%.

The above bank loans are all denominated in RMB and exposed to fair value interest rate risk. The directors consider that the carrying amounts of bank loans approximate their fair values because of the borrowing rate currently available for bank with similar terms and maturities.

On 14 November 2007, the Company obtained a 5-year loan in the amount of RMB70 millions from 深圳中小企業集合債券 (「集合債券」), which was organised by the local government for eligible local small and medium enterprises. The loan was arranged as an entrusted loan given by 國家開發銀行 (「開發銀行」) to the Company. Principal repayments of RMB28 millions, RMB21 millions and RMB21 millions will be made to 開發銀行 on 14 November 2010, 2011 and 2012 respectively. Interest rate has been fixed at 7.5% per annum on the outstanding principal and shall be paid on 14 November each year from 2008 to 2012.

According to the “共同條款協議” of the 集合債券, the Company needs to obtain guarantee from 深圳中小企業用擔保中心 (the “Guarantor”) for the entrusted loan obtained. In order for the Guarantor to provide guarantee on the entrusted loan, Mr. Li and Ms. Zhang, have given their personal guarantees to the Guarantors together with the corporate guarantee given by Powerleader Investment.

The Company had paid underwriting fees, guarantee fees and other direct related professional fees amounted to approximately RMB3.9 million which has been directly deducted from the proceeds of the entrusted loan.

Details of securities and guarantees in respect of the bank loans of the Group at 31 December 2007 were as follows:

- (a) The loan with a principal amount of RMB10 million was secured by the buildings of the Group with net carrying value of approximately RMB3.5 million and guaranteed by Powerleader Investment and personal guarantees given by Mr. Li and Ms. Zhang.
- (b) The loans with an aggregate principal amount of approximately RMB10 million were secured by a bank deposit of approximately RMB1.3 million and by personal guarantees given by Mr. Li and Ms. Zhang.
- (c) The loans with an aggregate principal amount of RMB34.9 million were guaranteed by personal guarantees given by Mr. Li and Ms. Zhang.
- (d) The loan with a principal amount of RMB20 million was guaranteed by Powerleader Investment and personal guarantees given by Mr. Li and Ms. Zhang.
- (e) The loans with an aggregate principal amount of RMB3.9 million was guaranteed by Powerleader Investment, 宝德計算機 and personal guarantees given by Mr. Li and Ms. Zhang.

- (f) The loans with an aggregate principal amount of RMB6.8 million was guaranteed by Powerleader Investment, Ex-Channel Group Limited, a subsidiary of the Group and personal guarantees given by Mr. Li, Ms Zhang and Mr. Dong Weiping, a director of the Company.

## 17. Share capital

	<b>As at 30 June 2008</b>	As at 31 December 2007	<b>As at 30 June 2008</b>	As at 31 December 2007
	<i>Number of Shares (Unaudited)</i>	<i>Number of Shares (Audited)</i>	<i>RMB'000 (Unaudited)</i>	<i>RMB'000 (Audited)</i>
<b>Authorised, issued and fully paid</b>				
Domestic shares of RMB0.1 each	<b>1,650,000,000</b>	1,650,000,000	<b>165,000</b>	165,000
H Shares of RMB0.1 each	<b>607,500,000</b>	607,500,000	<b>60,750</b>	60,750
	<b><u>2,257,500,000</u></b>	<u>2,257,500,000</u>	<b><u>225,750</u></b>	<u>225,750</u>

- (a) On 12 December 2002, the Company issued 220,000,000 H Shares of RMB0.1 each at an issue price of HK\$0.28 each for cash to institutional investors by way of placing and these H Shares were listed on the Growth Enterprise Market of the Stock Exchange.
- (b) On 12 December 2002, the issued domestic shares of the Company were sub-divided from 66,000,000 of RMB1 each into 660,000,000 shares of RMB0.1 each.
- (c) On 24 March 2005, the Company issued 23,000,000 H shares of RMB0.1 each at an offer price of HK\$0.47 each to 7 independent places by way of placing.
- (d) Pursuant to the resolutions passed at the Extraordinary General Meeting and the Class Meetings held on 8 October 2007, bonus shares on the basis of 15 bonus shares for every 10 shares held by the shareholders of the Company whose name appear on the register of members of the Company on 8 October 2007 was approved for issue. On 22 October 2007, 364,500,000 H shares have been issued to the then H shares shareholders. 990,000,000 bonus shares have not yet been issued to the then holders of the domestic shares pending registration with Shenzhen Department of Commerce. The bonus issue was effected by conversion of share premium, capital reserve and retained profits amounted to RMB35,127,000, RMB229,000 and RMB100,094,000 respectively into paid-in capital.
- (e) Pursuant to the articles of association of the Company, except for the currency in which dividends are payable, all shares issued by the Company rank pari passu with each other in all respects.

## 18. Reserves

	Attributable to equity holders of the Company							Total RMB'000
	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Retained profits RMB'000	Sub-total RMB'000	Minority interest RMB'000	
As at 1 January 2007	35,127	229	12,259	12,259	108,139	168,013	13,687	181,700
Profit for the period	—	—	—	—	15,693	15,693	1,524	17,217
Dividends paid to minority shareholders of a subsidiary	—	—	—	—	—	—	(1,097)	(1,097)
As at 30 June 2007	<u>35,127</u>	<u>229</u>	<u>12,259</u>	<u>12,259</u>	<u>123,832</u>	<u>183,706</u>	<u>14,114</u>	<u>197,820</u>
As at 1 January 2008	—	—	29,956	—	55,557	85,513	11,317	96,830
Profit for the period	—	—	—	—	37,003	37,003	1,442	38,445
Dividends paid to minority shareholders of a subsidiary	—	—	—	—	—	—	(1,140)	(1,140)
As at 30 June 2008	<u>—</u>	<u>—</u>	<u>29,956</u>	<u>—</u>	<u>92,560</u>	<u>122,516</u>	<u>11,619</u>	<u>134,135</u>

## 19. Deferred taxation

The following are the major deferred tax liabilities and assets recognised during the period and outstanding at 30 June 2008:

	As at <b>30 June 2008</b> <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2007 <i>RMB'000</i> <i>(Audited)</i>
Deferred tax liabilities arising on deferred development costs	<b>3,963</b>	4,285
Deferred tax assets arising on general allowances for doubtful debts and inventories	<b>(3,576)</b>	(3,472)
Deferred tax liabilities balance	<b>387</b>	813

At 30 June 2008, the Company's subsidiaries in the PRC have an aggregate amount of unused tax losses of approximately RMB564,000 (31 December 2007: RMB346,000) available to offset against future profits. No deferred tax has been recognised in respect of these tax losses due to the unpredictability of future profit streams of these subsidiaries. Pursuant to the relevant laws and regulations in the PRC, the unutilised tax losses can be carried forward for a period of five years from the date of incurrence.

## 20. Commitments

### (a) Commitments under operating leases

At 30 June 2008, the Company had future aggregate minimum lease payments in respect of office premises and warehouse under non-cancellable operating leases as follows:

	As at 30 June 2008 RMB'000 (Unaudited)	As at 31 December 2007 RMB'000 (Audited)
Not later than one year	1,402	2,430
In the second to fifth year inclusive	173	698
Total	<u>1,575</u>	<u>3,128</u>

### (b) Other commitment

The Group also had commitment contracted but not provided for of RMB3,500,000 (31 December 2007: RMB1,895,000) in respect of construction in progress.

## 21. Related party transactions

In addition to the personal guarantees provided by Mr. Li and Ms. Zhang and corporate guarantee provided by Powerleader Investment as set out in Note 16, the Group paid rent amounting to approximately RMB140,000 (2007: RMB140,000) to Ms. Zhang for office premises.

## 22. Comparative figures

Certain comparative figures have been reclassified to conform with the current period's presentation.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial review

During the Six Months Period, the Group recorded a turnover of approximately RMB507,170,000, representing an increase of 17.5% as compared to that of the corresponding period in 2007. This is mainly attributed to the increase in turnover contributed by *computer servers* and *platform and accessories products*.

As for the gross profit margin of the Group for the Six Months Period, it has experienced a modest reduction from 9.6% in 2007 to 8.1% in 2008. The gross profit margin generated from the computer servers business accounted for the reduction of overall gross profit margin of the Group. It has reduced from 26.8% in 2007 to only 15.8% in 2008. This is mainly due to the price competition of computer servers. A more detailed analysis on the business of computer servers is discussed in the **Business Review and Prospects** section.

The profit attributed to equity holders of the Company for this Six Months Period amounted to RMB37,003,000, representing an encouraging increase of 135.8% over the same period last year. Included in the profit attributed to the equity holders is an amount of approximately RMB13,861,000 representing the gain on deemed disposal of interest in the online games business.

The Group's online games business was previously carried out by Powerleader Network, a former subsidiary of the Group. In December 2007, the Group disposed of its 69% interest in Powerleader Network. The main reason attributable to the disposal was that the development of online games needed further investment of capital. Given that the Group had set its business strategy focus on computer servers and platform and accessories business, further investment in online games operation would not be in line with the best interest of the Group. In order to diversify risks and maximize shareholders' value, the disposal of partial interest in Powerleader Network can reduce the Group's capital commitment so as to relieve more funds for its main business. Upon completion of disposal of partial interest in Powerleader Network, the Group's interest in Powerleader Network will be lowered to 30% and thus it became the Group's associated company. In February 2008, Powerleader Network had successfully obtained cash capital of RMB83,200,000 from independent third parties for further development of its online games business. The capital fundings have thus decreased the Group's interest in Powerleader Network from the previous 30% to 20.4%, resulting in a profit of RMB13,861,000 from deemed disposal of equity interest in Powerleader Network.

## **BUSINESS REVIEW AND PROSPECTS**

### **Server Business**

#### *Marketing*

In the first half of 2008, we have dedicated effort in promoting Powerleader's products and image so as to reinforce the professional status of Powerleader in the server segment.

First, in respect of public relation promotions, Powerleader made use of the strategic alliance developed with Microsoft in order to strengthen up the promotion of our leading position as a professional server manufacturer. Powerleader has fully equipped its servers with pre-installed Microsoft 2008 operating system, which has shown its attitude on supporting genuine products and serving our users unreservedly. In addition, through constant promotions on the new products launched by Powerleader, we have enhanced our competence on innovation and research and development. Our propaganda on the storage server series, Binary Star U double mother board servers, modular servers and 2U Core 4 Quad server products are always ahead of our competitors in the industry. Powerleader has also actively participated in the reviews held by the mass media and welcomed their supervision on our products. Although Powerleader is not a partner in the Olympic Games, Powerleader's servers offered backstage support for TV broadcast on the Olympic Torch reaching Mount Everest with the joint-hands effort from our partners or users. Through these exposures, Powerleader is linked with Olympic Games, a big event with top priority in 2008. Lastly, we utilized the successful applications of Powerleader's products as evidences to show our products' capabilities.

In respect of advertising, we kept abreast of the product and sales end so that we were able to present our new products to the users promptly in the hope of boosting sales.

In respect of marketing and promotion, in the first half of the year, Powerleader has organized conferences and activities such as press conferences, industry seminars, VIP campaigns and distributor training meetings etc. to reinforce our interaction with the users and partners on one hand, and delivered Powerleader's latest products and corporate information to them on a timely basis on the other hand, so that we can forge a closer cooperations and communications with them and thereby achieving a win-win situation. Also, it should be noted that in the first half of the year, as the Powerleader Industrial Park is completed and being put into operation, we have organized a number of exchange visits for VIP and customers. In this regard, they were able to verify Powerleader's professional status in the area of servers through their real experiences to explore the actual production line. These activities have strengthened their confidence on the future cooperations with Powerleader.

*Powerleader Awards in the first half of 2008*

- February 2008: Powerleader PR1310D was awarded “Choice of Low-end Server of the Year” (年度低端伺服器首選產品) in 2007 by Server Online (服務器在線)
- March 2008: Powerleader was awarded “Best Employer in China IT Industry in 2007” (2007年度中國IT行業最佳僱主企業)
- April 2008: Powerleader was awarded “Green Information Centre Outstanding Solutions Provider” (綠色資料中心優秀解決方案提供商)

*Powerleader Marketing Activities in the first half of 2008*

<b>Date</b>	<b>City</b>	<b>Theme</b>
11 January	Beijing	INTEL general modular system press conference
15 January	Shenzhen	Bright Results in 10 years (風雨十年，見證輝煌)
16 January	Shenzhen	Loyalty in customer sales
17 January	Shenzhen	Excellency in customer service and communication
17 January	Beijing	Powerleader salesperson training meeting
29 January	Shenyang	Technology Seminar of Powerleader and 金算盤技術 (寶德與金算盤技術交流研討會)
12 March	Guangzhou	Network Technology Seminar (網通技術交流會)
18 March	Xi'an	Experiencing Genuine Products with Powerleader (正版體驗寶德呈現)
22-23 March	Beijing	Chinese Government Sourcing Seminar in 2007
25 March	Shenzhen	INTEL Clearbay media conference
26 March	Suzhou	Powerleader distributor training meeting
28 March	Shenzhen	Best Employer Awarding Ceremony 2007

<b>Date</b>	<b>City</b>	<b>Theme</b>
7 April	Shenzhen	Contract signing ceremony of Vietnam-China (Shenzhen) Trade and Economic Cooperation Zone
9 April	Shenzhen	Company Visit of Microsoft's Vice President
11 April	Hangzhou	Oracle SME Exhibition Tour on Applied Products (Oracle中小企業應用產品巡展)
15 April	Beijing	Second Green Information Centre Meeting
17 April	Shenzhen	Oracle SME Exhibition Tour on Applied Products (Oracle中小企業應用產品巡展)
17-18 April	Beijing	China Egov Forum in 2008
18 April	Shenzhen	Company Visit of Cuba Client
22 April	Shanghai	Second Green Information Centre Meeting
22 April	Beijing	Next Generation Data Centre International Summit(下一代數據中心國際峰會)
25 April	Shenzhen	2008 Low Cost IT Application for Enterprises Seminar (2008年企業IT低成本快捷應用研討會)
8 May	Shenzhen	HPC Industry Analysis and Sales Training (HPC 行業分析及銷售培訓)
8-9 May	Shenzhen	Dongguan Electricity Industry Seminar (東莞電力行業研討會)
15-16 May	Shenzhen	PRC Internet Summit Forum and Meeting (中國互聯網高峰論壇暨管道大會)
29 May	Changsha	Changsha Product Launch and Distributors Training Workshop (長沙平台刀片新品推介會暨經銷商技術培訓會議)
4-7 June	Hefei	HPC Meeting 2008
26 June	Nanchang	Nanchang Product Launch and Distributors Training Workshop (南昌平台刀片新品推介會暨經銷商技術培訓會議)
27 June	Zhengzhou	Zhengzhou Product Launch and Distributors Training Workshop (鄭州平台刀片新品推介會暨經銷商技術培訓會議)

### *Products and Research and Development*

In the first half of 2008, following the analysis of users' need, the Company made certain plans on a variety of Binary Star products that can better cater for the specific applications of IPDC users. Through launching 2U Core 4 Quad server products, the cost of products has been lowered and the chance for the successful sales of MP has been raised. We have also launched a number of storage server products, which has enriched the storage server product line, and thereby, Powerleader's leading position in storage server products was assured.

For low-end products, we have launched machine-control and low-priced products like PR1280D4 in accordance with the requirements of the projects. This has enriched the low-end product line. Due to the relocation of our factory to Guan Lan High and New Technology Park in Shenzhen, the production site has been expanded with improved environment and better office. In addition, there are 6 new laboratories and a central air-conditioned dirt-free production workshop (中央空調微塵生產車間). Moreover, we have purchased an automated production line and an advanced burn in room (高溫老化房), both of which are expected to be ready for use in the third quarter. It is believed that the production capability and quality can both be substantially enhanced at that time for building up a solid foundation for the future results of the Company.

### *Sales*

In the first half of 2008, Powerleader's server business also experienced tough challenges. In addition to the fierce competition within the industry, particularly the low-price tactics of the international manufacturers, the business was also affected by natural hazards such as the heavy snowstorm in the Southern provinces and Wenchuan Earthquake and losses resulting from halted production due to relocation of factory. However, we have overcome all those difficulties and maintained a growth in result higher than the average level in the industry. In the first half of 2008, Powerleader's server business recorded an increase in sales of more than 28% over the corresponding period in 2007 and the increase in the second quarter of 2008 was more than 90% over the second quarter of 2007. However, profit did suffer from a reduction to a certain extent due to the fierce price competition. The growth in result was attributable to our strategy which focused on targeting large customers. In the first half of the year, Powerleader has maintained its leading position in certain areas such as safety control and IPDC etc.

### **Value-added Distribution Business**

In general, the turnover and operating profit for the first half of 2008 have increased by 15% and 32% respectively as compared to the corresponding period of last year. Among which, the INTEL business has shown a steady growth of 21% and 4% in sales and profit respectively; other server accessory products have also shown an improved result, especially the turnover and profit in solution products increased by 153% and 200% respectively. In respect of expanding the product line, the Company has completed the addition of the desktop computer mother board product line, thus laying down a foundation for entering the field of desktops.

The severe shortage of LCDs at the end of last year and the over-supply in the first half of this year leading to the substantial price reduction in LCDs, product transformation and rise in capital cost, all of which have brought adverse effect to the sale of LCDs, resulting in a slight decline in the LCD business.

### **CDN and Server Leasing Business**

In respect of hosting, apart from the established cooperation with the current partners, China Telecom and China Netcom (網通), the Company has focused on initiating collaborations with Xichuan Telecom (四川電信) and Shantou Telecom (汕頭電信) in the first half of this year, and has signed new cooperation agreements with them. These new collaborations have extended the local hosting bandwidth resources in those places. CDN is a business highlight of the current

year. We aimed at targeting more online game customers, improving the quality of each of the node websites and optimizing the bandwidth in different places. This year, especially in the second quarter, there was gradual progress in exploring online game customers. CDN has achieved breakeven and even generated profit.

### **Associated Company**

The Group's associated company 深圳市宝德网络技术有限公司 completed its shares reform in April. It is now renamed as 深圳市中青宝网络科技股份有限公司 ("Powerleader Network"), and has achieved a stable growth in business with the support from the new private equity funds. It is expected that in the third quarter of 2008, it can be placed under close supervision for application to be listed as A Share in the Mainland. The management anticipates that Powerleader Network will bring better returns for all the shareholders, including the Group, in its future development.

### **Banking Facilities and Capital Management**

In the first half of 2008, we were confronted by complex factors under the macro economic conditions such as constant inflation, spiraling resource price and continuing appreciation of the Renminbi etc. In less than six months time, the PRC deposit reserve ratio has raised from 14.5% to 17.5%. By strengthening the liquidity management of banking system, the central government has enhanced policy measures like enhancing the "window" guidance on credit policy in order to direct commercial banks in tightening their credit policies and to prevent the rapid increase of credit facilities. Meanwhile, the rapid growth in business of the Company, particularly following the operation of the Powerleader Industrial Park, has triggered a continuous increase in demand for working capital and trading facilities. Therefore, the contradiction between the rapid growth of the business and the insufficient banking facilities has gradually become a major obstacle which constrains the sustainable development of the Company.

Against this background, the Company actively adjusted its financing structure, keenly consolidated the favourable resources from various banks and continuously deepened the dedicated trust with relevant banks. These measures have reaped good results. In the first half of 2008, under the foreground of the Central Bank of China limiting its credit scale, we also received additional current capital loan of RMB25 million from Pudong Development Bank. This loan partly relieved the Company's pressure on working capital. Moreover, credit facilities of RMB180 million offered by China Construction Bank and RMB65 million offered by Bank of China have already been approved, and are now in the final stage of processing. Drawdown of these two banking facilities will substantially raise the efficiency of our capital operation. The Company's capital requirement during the process of its business development can thus be met.

While seeking for external financing channels, the Company further optimized its internal fund management, re-engineered the business process for all product modules and streamlined cash flow and credit management, so as to penetrate the fund management from the Company level down to the product lines, and thus further simplified the management procedures. Through trials and practices in the past year, capital utilization cycles have been reduced; business operation efficiency has been enhanced; finance costs have been reduced.

## Honours

- Credited by Guangdong Association of Enterprises (廣東省企業聯合會) as “Top 100 Guangdong Manufacturing Enterprises” (廣東省製造企業100強) and “Guangdong Province Top 50 Listed Companies with Investment Value” (廣東省最具投資價值上市公司50強)
- Credited by 深圳市福田區政府 as “Chief Enterprise” and “Privately-owned Leading Backbone Enterprise” (民營領軍骨幹企業) in Futian District.
- HPC servers (PR1700D, PR2700D, PR4700D, PR1760T2, PR2850Q, PT6710D), the core products of the Company, were credited by Shenzhen Technology and Information Bureau (深圳市科技與信息局), as “Shenzhen Independent Innovative Products” and can enjoy preferential treatment from government purchases and support.

## Vietnam-China (Shenzhen) Trade and Economic Cooperation Zone

A formal agreement was signed between Shenzhen Municipal Government and Quang Ninh Provincial Government on 7 April 2008 for the establishment of the Vietnam-China (Shenzhen) Trade and Economic Cooperation Zone in Quang Ninh province, Vietnam. The trade and economic cooperation zone will carry on the business operated in Shenzhen. Shenzhen Municipal Shenzhen-Vietnam United Investment Company Limited (深圳市深越聯合投資有限公司) has been established for investment in and development of the zone. The Company has strategically invested RMB5 million and became a shareholder of the said company, holding a 5% equity interest.

Vietnam-China (Shenzhen) Trade and Economic Cooperation Zone is located within the ‘Two Corridors and One Ring’ economic zone as specified by both the PRC and Vietnamese governments. The economic zone has in place a highly developed transportation and logistic system and a rich labour force. It covered an area of 1.58 hectares, and is served with integrated facilities like R&D, exhibition and service centres. According to the development plan, plant facilities for light industries of 1.80 million sq. m. and storage facilities of 0.3 million sq. m. would be developed with a total gross floor area of more than 2.2 million sq. m.. It is expected the construction will be completed and ready to use in 2014.

Shenzhen Municipal Shenzhen-Vietnam United Investment Company Limited is jointly formed by 10 major players from various industries in Shenzhen included CATIC (中航技集團). It was a corporate entity formed with the specific purpose of engaging in investment, development and operation of the trade and economic cooperation zone in Vietnam with a registered capital of RMB100 million. The Ministry of Commerce and the Shenzhen Municipal Government planned to offer a subsidy of RMB400 million and an interest bearing loan of RMB2 billion as a support to speed up and develop the project.

The preliminary preparation work for this project such as registration and land is completed and the foundation laying is scheduled to be formally kicked off in early September. Construction work is expected to be commenced this year.

## **Project in Tianjin’s Binhai new development zone**

The Group has entered into “Contract of Land Use Right for Tianjin State-owned Construction Site” (《天津市國有建設用地使用權出讓合同》) with the Airport Land Bureau (空港土地局) in respect of the Powerleader Technology Square Northern Headquarters Sales Centre project. The Company is now liaising design houses in Shenzhen to outline planning proposals. Construction is expected to be commenced in the second half of this year and the fundamental construction will be basically completed next year.

The project is located at the business centre of Tianjin Airport Industrial Park, and surrounded by the headquarter of 中冶集團, the headquarter of 寶鋼, 白雲賓館, custom and excise building, office tower of the administration board of Tianjin Airport, Finance Street and the office building of 空港國際中心, with 西二道, 西三道, 中環西路 and 中心大道 at its north, south, west and east respectively.

The project occupies an area of 4,673.3 sq.m. and is designated for commercial purpose with total gross floor area of 23,000 sq.m.. It is the northern headquarter of the Powerleader Group situated within the Airport Industrial Park of the Tianjin Binhai’s new development zone. The estimated construction cost of the project is RMB150,000,000, which will be funded by the internal resources of the Powerleader Group.

With the strategic setting of the Group in Binhai new development zone of Tianjin and the advancement and development of the project, the financial strength and the market reputation of the Powerleader Group would certainly be further enhanced and strengthened.

## **OUTLOOK**

### **Server Business**

#### *Marketing*

In the marketing aspect, Powerleader will keep focusing on the work in three major aspects which are advertising, public relations and marketing activities in the second half of the year.

In terms of advertising, we will continue to keep abreast of the product trend and present our latest products to users on a timely basis. On the aspect of PR promotions, the Company will gather and publicize the successful applications of Powerleader’s products from successful projects in the first half of the year particularly the industry breakthroughs, in order to show our strength. We will also organize coherent promotional projects to create echoes, for instance, the Powerleader’s cooperation on the area of gene study with 華大基因 and Powerleader’s on-site connection and supervision in Olympic Games etc. Other than these, on the aspect of PR promotions, Powerleader will exert effort to differentiate its products and their application promotions in the second half year, and will further reinforce Powerleader’s application and position in the internet business. In terms of marketing activities, we will continue to organize a variety of marketing activities according to projects. We will tighten the bonding with our customers and partners through organizing exhibition tours, training, seminar, VIP meetings or other forms for majors projects like HPC, IPDC, partnerships, product launch and VIP exclusives, so that users will be familiar with Powerleader’s brand name. At the same time, we

will hold press conferences according to the progress on the product end cooperation in the second half year and will organize a nation-wide gathering or thankful rebate activities for our clients in order to enhance our relationship with them and to build their loyalty towards the Company.

### *Product Research and Development*

In the aspect of product research and development (R&D), we will be the first to launch certain new products such as 6-core 4 Quad servers (6核4路伺服器), which will further deepen our cooperation on virtualization with Microsoft. We will dedicate more effort to the R&D on storage servers in the hope of sustaining its absolute leading status in that area. In the second half year, the Company plans, or co-operates with prestigious international manufacturers, to build 3 new R&D laboratories in order to raise the competitive edge of Powerleader's server system and application software. With advancements in manufacturing and R&D, time for new products launch would be shortened and the quality would be improved further. We believe this can meet the requirements for the rapid development of the server business.

### *Sales*

In terms of sales, we will further expand our sales team and provide our salespersons with more incentives and reinforce the management. We will also focus on developing certain projects such as IPDC, safety control, education and government applications.

Through implementing a series of measures, we believe that a better growth in the result of the Company's server business will be achieved in the second half of the year.

### **Value-added Distribution Business**

According to the Company's planning for the year, our distribution network will expand in the second half year to build up a large customer pool and to collaborate with the upstream manufacturers, therefore enabling a substantial increase in market share and turnover. In the meantime, we will continue to seek for value-added distribution products that suit our profile, so that the Company can establish its foothold in IT distribution business and certain specialized fields. Besides, under the current high capital cost and tightened monetary control, management considers that there is a need to have negotiation with the LCD manufactures, with an aim to adjust our product structure and enhance our product competitiveness and profit.

In respect of the solutions business, we will capitalize on the established distribution channels to strengthen our sales in telecommunications, domestic tax and mobile communication, thereby boosting the Company's turnover and profit. The Company will lower its inventory level, introduce its entire products to the industry elites, make full use of our value-added capabilities to avoid straight forward price competition and ultimately raising the Company's profit. With sufficient capital on hand, the Company will achieve outstanding performance in terms of turnover, customer pool and value-added fields, will therefore provide guarantee in our short-term profit and long-term development momentum.

## **CDN and server leasing business**

According to the Company's planning for the year with respect to hosting service, we put our emphasis on setting up our own backyard with professional servers as our backbone, from which we will establish a comprehensive platform for our online game business. We will strengthen our effort in CDN research and development. Technical support will be separated from CDN research and development. A new CDN research and development division will be set up to cater for the needs of our online game customers towards CDN solutions.

## **Associated Company**

With the support of the new equity funds, Powerleader Network's ability in research and development and operations has been enhanced accordingly. Following the intensive launch and promotion of new products, a satisfactory result is expected in the second half year. The Group will then obtain a better shareholders' return. Meanwhile, Powerleader Network is also preparing for the listing of A Share on the Mainland. It is expected that Powerleader Network will be one of the pioneer companies to be listed on the growth enterprise board of the Mainland.

## **Honour of the Company**

- The Company is undergoing an evaluation made by the Economic and Trade Committee of Guangdong Province (廣東省經貿委) and Guangdong Association of Enterprises (廣東省企業聯合會), which may credit the Company as "Guangdong Province Focus Enterprise in Equipment Manufacturing (廣東省裝備製造業重點企業)" and "Guangdong Province Independent Innovative Enterprise (廣東省自主創新企業)".
- The Company's trademarks and brands are being assessed by the Prestigious Trademarks Assessment Committee of Guangdong Province (廣東省著名商標認定委員會) and Shenzhen Top Brand Nomination Council (深圳知名品牌評價委員會), the Company may get one more "Prestigious Trademark of Guangdong (廣東省著名商標)" award and become the "Shenzhen Top Brand (深圳知名品牌)".

## **宝德軟件公司**

In order to strengthen the Group's ability in handling software and solutions, during the second half of the year, the Group proposed to contribute RMB10,000,000 to set up 宝德軟件公司. The number of employees will reach 30-50 at the end of 2008. 宝德軟件公司 is principally engaged in system software, application software development and relevant industry system integration business that is related to the Group's business (such as servers, storage, accessories, CDN etc.). We believe that the successful establishment of 宝德軟件公司 will draw a great contribution to the Group's profit in future.

## **Liquidity and financial resources**

As at 30 June 2008, current assets of the Group amounted to RMB518,605,000 (31.12.2007: RMB535,275,000) which comprised mainly of bank balances and cash of RMB90,641,000 (31.12.2007: RMB168,147,000), inventories of RMB102,989,000 (31.12.2007: RMB69,159,000) and trade and bills receivables of RMB201,530,000 (31.12.2007: 240,248,000). On the other hand, current liabilities of the Group amounted to RMB261,223,000 (31.12.2007: RMB263,377,000) which comprised mainly of bank loans and other borrowings of RMB75,847,000 (31.12.2007: RMB85,529,000), trade and bills payables of RMB92,241,000 (31.12.2007: RMB120,779,000).

The gearing ratio, calculated on the basis of total bank and other borrowings over net worth, decreased from 48.7% as at 31 December 2007 to 41.6% as at 30 June 2008.

## **Employee information**

As at 30 June 2008, headcount of the Group was approximately 470 (30.6.2007: approximately 460). The total staff costs amounted to RMB8,447,000 for the Six Months Period compared to RMB8,700,000 for that of the corresponding period in 2007.

The Group also participates in a pension scheme organized by local government in the PRC, which is a defined contribution scheme in nature. Contribution to the scheme is based on 16% of the applicable payroll costs.

## **Currency risk**

The Company's sales were substantially denominated in RMB and the purchases were denominated in USD and RMB. The Group did not make any arrangement to hedge against its exchange risk during the Six Months Period as it was considered that the exchange risk faced by the Group was minimal.

## **Contingent liabilities**

As at 30 June 2008, the Directors were not aware of any significant contingent liabilities.

## **Material acquisitions and disposals**

Other than the Deemed Disposal as referred to on page 10 of this report, there was no material acquisitions or disposals of investments by the Group during the Six Months Period.

## **Charge on assets**

As at 30 June 2008, the Group has pledged properties with a total net book value of approximately RMB3,100,000 (31.12.2007: approximately RMB3,500,000) to secure bank loans granted to the Group.

## **INTERIM DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the Six Months Period.

## DIRECTORS' AND SUPERVISORS' INTERESTS OR SHORT POSITIONS IN EQUITY OR DEBT SECURITIES

At as 30 June 2008, the interests or short positions of the directors and supervisors of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under provisions of the SFO) as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by the Directors were as follows:

### (a) Shares of the Company

Name of Director	Number of Domestic Shares held by a controlled corporation	Approximate percentage of the Company's issued share capital	Approximate percentage of the Company's issued Domestic Shares
Li Ruijie ( <i>Note</i> )	1,021,845,000	45.26%	61.93%
Zhang Yunxia ( <i>Note</i> )	1,021,845,000	45.26%	61.93%

*Note:* Li Ruijie ("Mr. Li") is the husband of Zhang Yunxia ("Ms. Zhang"). They hold in aggregate 1,021,845,000 Domestic Shares through Powerleader Investment Holding Company Limited which is held by Mr. Li and Ms. Zhang as to 87.5% and 12.5% respectively.

### (b) Shares in an associated corporation — Ex-Channel Group Limited (*Note*)

Name of director	Number of shares held			Approximate percentage of the issued share capital of Ex-channel Group Limited
	Beneficial owner	Held by a controlled corporation	Total	
Mr. Li	—	3,000,000	3,000,000	10%
Dong Weiping	3,000,000	—	3,000,000	10%

*Note:* Ex-channel Group Limited is a 80% indirectly owned subsidiary of the Company.

**(c) Shares in an associated corporation — 深圳市宝騰互聯科技有限公司 (Note 1)**

<b>Name of director</b>	<b>Number of shares held by a controlled corporation</b>	<b>Approximate percentage of the issued share capital of 深圳市宝騰互聯科技有限公司</b>
Mr. Li (Note 2)	2,500,000	25%
Ms. Zhang (Note 2)	2,500,000	25%

*Note 1:* 深圳市宝騰互聯科技有限公司 is a 75% directly owned subsidiary of the Company.

*Note 2:* Mr. Li is the husband of Ms. Zhang. They hold in aggregate 2,500,000 shares through Powerleader Investment Holding Company Limited which is held by Mr. Li and Ms. Zhang as to 87.5% and 12.5% respectively.

Save as disclosed above, as at 30 June 2008, none of the directors or supervisors of the Company had any interests or short positions in any shares, underlying shares of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

## **DIRECTORS' AND SUPERVISORS RIGHTS TO PURCHASE SHARES**

As at 30 June 2008, the Company or any of its subsidiaries was not a party to any arrangements to enable the directors or supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debts securities, including debentures, of the Company, its subsidiaries or any other body corporate, and none of the directors or the supervisors of the Company or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company and its subsidiaries, or had exercised any such right.

## **SHARE OPTION SCHEME**

Up to 30 June 2008, the Company has not adopted any share option scheme and not granted any option.

## **SUBSTANTIAL SHAREHOLDERS**

Save as disclosed below, as at 30 June 2008, the Directors are not aware of any other interests and short positions in shares and underlying shares of substantial shareholders of the Company and other persons, which will have to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or which will be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

## Long positions in Domestic Shares

	<b>Number of Domestic Shares</b>	<b>Capacity</b>	<b>Approximate percentage of the Company's issued share capital</b>	<b>Approximate percentage of the Company's issued Domestic Shares</b>
Powerleader Investment Holding Company Limited ( <i>Note</i> )	1,021,845,000	Beneficial owner	45.26%	61.93%

*Note:* Powerleader Investment Holding Company Limited, a limited liability company established in the PRC, which is held by Mr. Li and Ms. Zhang, as to 87.5% and 12.5% respectively, holds in aggregate 1,021,845,000 Domestic Shares.

## COMPETING BUSINESS AND CONFLICTS OF INTERESTS

None of the Directors, initial management shareholders or their respective associates (as defined in GEM Listing Rules) had any interests in any business which compete or may compete with the Company or any other conflicts of interest which any such person may have with the Company.

## RULE 17.15 TO 17.21 OF THE GEM LISTING RULES

The Directors have confirmed that the Group was not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

## THE CODE OF CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company had complied with the Code on Corporate Governance Practice (the "Code") as set out in Appendix 15 of the Rules governing the listing of securities on the GEM for the six months period.

## COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

The Company has adopted a code of conduct regarding securities transactions by directors on terms on less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the Six Months Period. Having made specific enquiry of all directors, the Company's directors have complied with such code of conduct and required standard of dealings throughout the Six Months Period.

## AUDIT COMMITTEE

The Company established an audit committee (the “Committee”) on 19 October 2002 in accordance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the Committee are (i) to provide an important link between the Board and the company’s auditors in matters coming within the scope of the company audit and (ii) to review the effectiveness of the external audit and of internal controls and risk evaluation. At present, the Committee comprises three independent non-executive directors, namely Mr. Yim Hing Wah, Dr. Guo Wanda and Mr. Jiang Baijun. The Company’s financial statements for the Six Months Period have been reviewed by the Committee, who were of the opinion that such statement complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosure had been made.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s shares during the Six Months Period.

By order of the Board  
**Li Ruijie**  
Chairman

Shenzhen, PRC, 13 August 2008

*As at the date of this report, the board of directors comprises a total of 10 Directors including Mr. Li Ruijie, Mr. Dong Weiping, Ms. Zhang Yunxia and Mr. Ma Zhumao as executive directors, Mr. Sun Wei, Mr. Wang Lixin and Mr. Li Donglei as non-executive directors, Mr. Yim Hing Wah, Dr. Guo Wanda and Mr. Jiang Baiyun as independent non-executive Directors.*

*This report will remain on the “Latest Company Announcements” page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for at least 7 days from the date of its posting and will be published on the website of the Company at [www.powerleader.com.cn](http://www.powerleader.com.cn).*